

**LEGISLATIVE SERVICES AGENCY  
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House  
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**FISCAL IMPACT STATEMENT**

**LS 6544**

**BILL NUMBER:** HB 1815

**DATE PREPARED:** Feb 9, 2001

**BILL AMENDED:** Feb 8, 2001

**SUBJECT:** PERF and TRF COLAs.

**FISCAL ANALYST:** James Sperlik

**PHONE NUMBER:** 232-9866

**FUNDS AFFECTED:** X  
X

**GENERAL**  
**DEDICATED**  
**FEDERAL**

**IMPACT:** State & Local

**Summary of Legislation:** (Amended) This bill provides a cost of living adjustment (COLA) in 2001 to members of the Public Employees' Retirement Fund (PERF) and members of the Indiana State Teachers' Retirement Fund (TRF) (or their survivors or beneficiaries) who retired or were disabled before July 2, 1999. It provides a COLA in 2002 to members of PERF or TRF (or their survivors or beneficiaries) who retired or were disabled before July 2, 2000. The bill also provides a supplemental "thirteenth check" benefit to retired teachers and certain retired public employees (or their survivors or beneficiaries) on November 1, 2001, and on November 1, 2002.

The bill also provides an additional COLA in 2001 and 2002 to retired or disabled members of PERF and TRF. The bill provides that the additional COLA is equal to the amount necessary to provide: (1) members who retired or were disabled before July 2, 1978, with pension benefits having at least 70% of the purchasing power of the pension benefits received by those members when they first retired (payable in 2001); and (2) members who retired or were disabled before July 2, 1984, with pension benefits having at least 75% of the purchasing power of the pension benefits received by those members when they first retired (payable in 2002).

The bill provides that a member of the Public Employees' Retirement Fund or the Indiana State Teachers' Retirement Fund may change the allocation among available funds of the amount credited to the member's annuity savings account under rules established by the PERF Board and the TRF Board. It specifies that the PERF Board and TRF Board shall allow a member to make a selection or change any existing selection at least once each quarter. (Current law provides that the allocation may be changed only one time every 12 months.)

The bill provides that for the purposes of computing a retirement benefit for a person who is a member of TRF and who takes an unpaid leave of absence to serve in an elected position: (1) "annual compensation" includes the total amount that was not paid to the member but would have been paid to the member during the year under the member's employment contracts if the member had not taken any unpaid leave of absence

to serve in an elected position; and (2) the "average of the annual compensation" means the annual compensation for the one year of service in which the member's annual compensation was highest.

**Effective Date:** June 1, 2001; July 1, 2001; July 1, 2002.

**Explanation of State Expenditures:** (Revised) *Public Employees' Retirement Fund*

*COLA Provisions:* The bill provides a COLA to all PERF and TRF recipients effective July 1, 2001, and a similar COLA effective July 2, 2002. The COLA for each year is in three portions:

1) The first part provides a COLA in accordance with the following table:

<u>Benefit Commencement</u>	<u>COLA Applied to Employer Portion Only</u>
After 7/1/84, before 7/2/99*	2%
After 7/1/76, before 7/2/84	3%
Before 7/2/76	4%

\*7/2/2000 for July 1, 2002, effective date

2) The second part adds a provision such that the COLA will be increased to the extent necessary that, when combined with the previous post-retirement increases, the member's pension portion is at least 70% (75% for July 1, 2002, effective date) of the purchasing power of the member's pension portion at the time of retirement.

Current statute provides that any COLA applicable to PERF benefit recipients, as described in #1 and # 2 above, also is applicable to the Excise Police and Conservation Officers' Retirement Plan benefit recipients and to the benefit recipients of the Legislators' Defined Benefit Plan.

3) The third part provides a 13th check equal to the greater of \$50 or an amount determined through a formula for TRF. For PERF, a 13th check is equal to the greater of \$100 or a percentage of the annual benefit according to the following table. The 13th check would be payable on November 1, 2001, and November 1, 2002, for both TRF and PERF.

**PERF 13th Check**

<u>November 1, 2001 Calendar Year of Last Retirement of Member</u>	<u>November 1, 2002 Calendar Year of Last Retirement of Member</u>	<u>Applicable Percentage</u>
1950 through 1974	1950 through 1975	6%
1975 through 1982	1976 through 1983	5%
1983 through 1987	1984 through 1988	4%
1988 through 1991	1989 through 1992	3%
1992 through 2000	1993 through 2001	2%

The 13th check will be payable to members of PERF and the Excise Police and Conservation Officers' Retirement Plan.

Below are tables which summarize the total fiscal impact of this bill for PERF. These data are based on the

1999 actuarial valuation for PERF.

**FY 2002**

<u>PERF Totals</u>	<u>State</u>	PERF Local <u>Units</u>	<u>Total</u>	Excise <u>Police</u>	<u>Legislators</u>
Estimated Increase in Unfunded Accrued Liability	\$5,850,000	\$6,970,000	\$12,820,000	\$205,000	(\$5,700)
Estimated Increase in Annual Benefits	\$2,540,000	\$3,020,000	\$5,560,000	\$47,500	\$3,900
Estimated Increase in Annual Funding	\$430,000	\$512,000	\$942,000	\$15,100	(\$501)
Increase in Annual Funding as a % of Payroll	0.04%	0.03%	0.03%	0.14%	NA

**FY 2003 - Cumulative Totals**

<u>PERF Totals</u>	<u>State</u>	PERF Local <u>Units</u>	<u>Total</u>	Excise <u>Police</u>	<u>Legislators</u>
Estimated Increase in Unfunded Accrued Liability	\$10,010,000	\$11,920,000	\$21,930,000	\$320,000	(\$11,500)
Estimated Increase in Annual Benefits	\$4,750,000	\$5,650,000	\$10,400,000	\$82,800	\$7,900
Estimated Increase in Annual Funding	\$735,000	\$877,000	\$1,612,000	\$23,600	(\$1,012)
Increase in Annual Funding as a % of Payroll	0.06%	0.05%	0.05%	0.22%	NA

The tables, below, show the impact for each of the individual components and by year. The FY 2003 tables do not represent cumulative totals.

**FY 2002**

<b><u>Standard COLA</u></b>	<b><u>State</u></b>	<b>PERF Local <u>Units</u></b>	<b><u>Total</u></b>	<b><u>Excise Police</u></b>	<b><u>Legislators</u></b>
Estimated Increase in Unfunded Accrued Liability	(\$152,000)	(\$181,000)	(\$333,000)	\$20,700	(\$5,700)
Estimated Increase in Annual Benefits	\$1,880,000	\$2,240,000	\$4,120,000	\$27,100	\$3,900
Estimated Increase in Annual Funding	(\$11,200)	(\$13,300)	(\$24,500)	\$1,500	(\$501)
Increase in Annual Funding as a % of Payroll	Minimal	Minimal	Minimal	0.01%	NA

<b><u>Purchasing Power COLA</u></b>	<b><u>State</u></b>	<b>PERF Local <u>Units</u></b>	<b><u>Total</u></b>	<b><u>Excise Police</u></b>	<b><u>Legislators</u></b>
Estimated Increase in Unfunded Accrued Liability	\$3,410,000	\$4,070,000	\$7,480,000	\$146,000	\$0
Estimated Increase in Annual Benefits	\$660,000	\$780,000	\$1,440,000	\$20,400	\$0
Estimated Increase in Annual Funding	\$250,000	\$300,000	\$550,000	\$10,800	\$0
Increase in Annual Funding as a % of Payroll	0.02%	0.02%	0.02%	0.10%	NA

<b><u>13th Check</u></b>	<b><u>State</u></b>	<b>PERF Local <u>Units</u></b>	<b><u>Total</u></b>	<b><u>Excise Police</u></b>	<b><u>Legislators</u></b>
Estimated Increase in Unfunded Accrued Liability	\$2,590,000	\$3,080,000	\$5,670,000	\$38,300	NA
Estimated Increase in Annual Funding	\$190,000	\$227,000	\$417,000	\$2,800	NA
Increase in Annual Funding as % of Payroll	0.02%	0.01%	0.01%	0.03%	NA

**FY 2003**

<b><u>Standard COLA</u></b>	<b><u>State</u></b>	<b><u>PERF Local Units</u></b>	<b><u>Total</u></b>	<b><u>Excise Police</u></b>	<b><u>Legislators</u></b>
Estimated Increase in Unfunded Accrued Liability	(\$55,000)	(\$65,000)	(\$120,000)	\$24,300	(\$5,800)
Estimated Increase in Annual Benefits	\$1,950,000	\$2,320,000	\$4,270,000	\$28,600	\$4,000
Estimated Increase in Annual Funding	(\$4,000)	(\$4,800)	(\$8,800)	\$1,800	(\$511)
Increase in Annual Funding as a % of Payroll	Minimal	Minimal	Minimal	0.02%	NA

<b><u>Purchasing Power COLA</u></b>	<b><u>State</u></b>	<b><u>PERF Local Units</u></b>	<b><u>Total</u></b>	<b><u>Excise Police</u></b>	<b><u>Legislators</u></b>
Estimated Increase in Unfunded Accrued Liability	\$1,520,000	\$1,800,000	\$3,320,000	\$50,900	\$0
Estimated Increase in Annual Benefits	\$257,000	\$306,000	\$563,000	\$6,800	\$0
Estimated Increase in Annual Funding	\$111,000	\$133,000	\$244,000	\$3,740	\$0
Increase in Annual Funding as a % Payroll	0.01%	0.01%	0.01%	0.03%	NA

<b><u>13th Check</u></b>	<b><u>State</u></b>	<b><u>PERF Local Units</u></b>	<b><u>Total</u></b>	<b><u>Excise Police</u></b>	<b><u>Legislators</u></b>
Estimated Increase in Unfunded Accrued Liability	\$2,700,000	\$3,210,000	\$5,910,000	\$40,300	NA
Estimated Increase in Annual Funding	\$198,000	\$237,000	\$435,000	\$3,000	NA
Increase in Annual Funding as % of Payroll	0.02%	0.01%	0.01%	0.03%	NA

### Teachers' Retirement Fund

These estimates are based on the 1999 Actuarial Valuation.

(1) The benefit percentages are the same as for PERF listed above. They are repeated here for convenience.

<u>Benefit Commencement</u>	<u>Employer Portion Only</u>
After 7/1/84, before 7/2/99*	2%
After 7/1/76, before 7/2/84	3%
Before 7/2/76	4%

\*7/2/2000 for July 1, 2002, effective date.

2) This bill adds a provision that the COLA will be increased to the extent necessary that, when combined with the previous postretirement increases, the member's pension portion is at least 70% (75% for July 1, 2002 effective date) of the purchasing power of the member's pension portion at the time of retirement. The following table shows the impact of the COLA for the Pre 1996 (Old) Plan.

Increase in the Pre 1996 (Old) Plan Unfunded Actuarial Accrued Liability		\$175.9 M
2001 Regular COLA	\$64.9 M	
2001 Purchasing Power COLA	\$26.7 M	
2002 Regular COLA	\$70.1 M	
2002 Purchasing Power COLA	\$14.2 M	
Increase in Pre 1996 (Old) Plan Retired Life 2001 Payroll		\$13.6 M
Increase in Pre 1996 (Old) Plan Retired Life 2002 Payroll (Cumulative)		\$24.9 M

The fund affected is the State General Fund.

The following table shows the impact of the TRF COLA for the 1996 (New Plan).

Increase in the 1996 (New Plan Unfunded Accrued Liability)		\$201,501
2001 Regular COLA	\$68,089	
2001 Purchasing Power COLA	NA	
2002 Regular COLA	\$133,412	
2002 Purchasing Power COLA	NA	
Increase in 1996 (New Plan Retired Life 2001 Benefit Payout)		\$6,700
Increase in 1996 (New Plan Retired Life 2002 Benefit Payout) (Cum.)		\$20,100

For the 1996 (New) Plan, the cost of payroll will increase by less than 0.01%, or approximately \$53,884 statewide.

### 13th Check Payable October 1, 2001

The bill also calls for a 13th check payable from the Teacher Annuity Reserve Account. The amount to be distributed is the difference between the balance in the Teacher Annuity Reserve Account on June 30, 2000, (which amounted to \$649.2 M) minus the computed liability (which at that time totaled \$570.3 M) times 10%. The result of \$7.89 M is the amount to be distributed to retirees who meet the requirements of the proposal.

### 13th Check Payable October 1, 2002

The proposal also calls for a 13th check payable from the Teacher Annuity Reserve Account on October 1, 2002. Again, the amount to be distributed is the difference between the balance in the Teacher Annuity Reserve Account on June 30, 2001 (which is estimated at \$669.2 M) minus the computed liability (which is estimated to total \$593.1 M) times 10%. The result amounts to \$7.61 M, which is to be distributed to retirees who meet the requirements of the proposal.

### Allocation of Assets in PERF and TRF

This provision provides that a member of PERF or TRF may change the allocation among available funds of the amount credited to the member's annuity savings account at least once each quarter. Both PERF and TRF have reported that this provision will have no fiscal impact for them. The funds affected are the Investment Earnings Fund for both PERF and TRF.

### TRF Annual Compensation Computation

This part provides that for the purposes of computing a retirement benefit for a person who is a member of TRF and who takes an unpaid leave of absence to serve in an elected position: (1) "annual compensation" includes the total amount that was not paid to the member but would have been paid to the member during the year under the member's employment contracts if the member had not taken any unpaid leave of absence to serve in an elected position; and (2) the "average of the annual compensation" means the annual compensation for the one year of service in which the member's annual compensation was highest. Current law requires the use of the highest five years.

This change is expected to affect a small number of TRF members. The overall fiscal impact on the TRF is expected to be small. The impact on individual members could be significant, however. Legislator/teacher pension benefits will increase in the same proportion as the increase in final average pay used for pension purposes. The change from a 5-year final average salary to a one-year final average salary is expected to increase the final average salary by 10% based on assumed salary increases of 5%. It is not known what impact the change in allowing contract compensation versus actual compensation would have. The TRF reports that there are approximately 20 teachers in the Indiana General Assembly.

### **Explanation of State Revenues:**

**Explanation of Local Expenditures:** See various tables above.

### **Explanation of Local Revenues:**

**State Agencies Affected:** Public Employees' Retirement Fund; Teachers' Retirement Fund.

**Local Agencies Affected:** Local units with members in PERF; and local school corporations with members in TRF.

**Information Sources:** Doug Todd of McCready & Keene, actuaries for PERF, the Conservation and Excise Officers' Retirement Fund, and the Legislators Defined Benefit Fund, 576-1508; Denise Jones of Gabriel Roeder Smith & Co., actuaries for the TRF, 1-800-521-0498.

### DEFINITIONS

Thirteenth Check--A thirteenth check is an annual supplemental retirement allowance arising from earnings on the investments of a system in excess of those determined as needed for other purposes. Unlike a cost-of-living adjustment, the amount of this supplemental retirement allowance does not increase the pension base.

Cost of Living Adjustment An increase or decrease in wages or pension benefits according to the rise or fall in the cost of living as measured by some index, often the Consumer Price Index (CPI).

Funding- a systematic program under which assets are set aside in amounts and at times approximately coincident with the accruing of benefit rights under a retirement system.

Defined Benefit--A benefit program uses defined benefits if benefits to be received by employees after retirement are predetermined by a formula. The employer's contributions under such a program are determined on the basis of the benefits that are thus payable.

Unfunded Actuarial Liability (sometimes called the unfunded liability) of a retirement system at any time is the excess of its actuarial liability at that time over the value of its cash and investments.

Final Average Salary That measure of a participant's level of earnings rate of salary for a specified period of time, usually the three, five or ten years immediately preceding retirement. A participant's final average salary may be one of the factors used in determining the amount of the member's benefits.